



# BUDGET COMMITTEE



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## EMERGENCY ECONOMIC STABILIZATION ACT:

*A Bipartisan Plan to Stabilize the U.S. Financial System,  
Protect Taxpayers and Implement Strong Oversight*

*The Emergency Economic Stabilization Act of 2008* is designed to immediately address the web of complex and broken financial relationships that are choking the economy, and avoid a systemic financial collapse that would devastate the economy and have severe consequences for all Americans. The centerpiece of the bill is the Troubled Asset Relief Program (TARP), which will allow the federal government to purchase up to \$700 billion in distressed assets from institutional investors in order to stabilize the financial sector.

Highlights of the plan:

**Cost is Substantially Less Than \$700 Billion.** The bill gives the Treasury Secretary the authority to purchase troubled assets – many of which are mortgage-related assets due to the decline in housing markets – from financial institutions, thus freeing up their capital so that they can begin to lend to businesses and individuals again. The government would then hold these troubled assets temporarily while the financial sector stabilized, **later selling the assets (for a possible profit) and using the money from those sales to pay down the national debt.**

The non-partisan Congressional Budget Office (CBO) reports that the “**net cost is likely to be substantially less than \$700 billion.**” While CBO continues that the cost “is more likely than not to be greater than zero,” CBO’s estimate does allow for the possibility that the Treasury will get more money back from holding and selling the assets than it will have to pay to obtain them.

**Taxpayers Will Be Protected.** The bill protects taxpayers by prohibiting “unjust enrichment” – an institution will not be able to sell an asset to Treasury for more than they paid for it. Further, certain institutions selling assets to Treasury will be limited in the amount of compensation they can pay to executives – no golden parachutes and a disincentive on pay in excess of \$500,000.

**Proceeds Will Pay Down Debt.** After the Treasury purchases an asset, it will get income from holding the asset (for example, people making monthly principal and interest payments on their mortgages) as well as for selling it down the road when the market recovers and the asset appreciates in value. All this income to the Treasury will go to pay

down the debt that Treasury incurred to make the purchases in the first place. Further, any profit that the government might make on particular purchases would also go to pay down the debt.

**Recoupment.** The bill requires OMB to take a snapshot of the program five years after it is enacted to determine whether the program is on its way to losing money or making money. If OMB reports that, despite the protections, the program appears to be losing money, then the President will be required to submit a legislative proposal that would recoup from the financial industry an amount equal to the projected deficit shortfall.

**Many Eyes on the Process.** Though the Treasury will have a lot of authority, the bill creates substantial oversight mechanisms to make sure the Treasury is using the authority wisely: an executive branch Financial Oversight Stability Board that will review Treasury's actions, identify fraud, and make recommendations; a Congressional Oversight Panel in the legislative branch; auditing by the Government Accountability Office; a Special Inspector General at the Treasury solely for this program, and reporting on the program's results and costs by the Office of Management and Budget (OMB) and CBO.

**Temporary, Not Permanent.** This is not a permanent new program. Exactly two years after the bill is enacted, the Treasury's authority to purchase troubled assets will expire.